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DEPARTMENT OF AUDITOR-CONTROLLER**

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January 19, 2011

TO: Carolyn Rhee, Chief Executive Officer  
Valley Care Olive View-UCLA Medical Center

FROM: Jim Schneiderman, Chief  
Audit Division 

SUBJECT: **DEPARTMENT OF HEALTH SERVICES – VALLEY CARE OLIVE VIEW-  
UCLA MEDICAL CENTER – REVIEW OF TRUST FUNDS, REVOLVING  
FUNDS AND ACCOUNTS PAYABLE**

We have reviewed Valley Care Olive View-UCLA Medical Center's (OVMC or Facility) trust funds, revolving funds, commitments and accounts payable. Our review included interviews with OVMC financial management and staff, and tests of OVMC records.

Our review indicates that OVMC generally does a good job of maintaining controls in fiscal areas, including transferring earned revenue from trust to revenue timely. However, we noted that OVMC needs to ensure that trust accounts are used as intended, are reconciled as required, and that all unclaimed funds are appropriately transferred. OVMC also needs to maintain adequate controls over its accounts payable and revolving funds. The following are the detailed results of our review and recommendations for improvement.

**Trust Accounts**

OVMC has four trust accounts, including their Olive View Hospital trust account (TK7-7265), which includes five smaller Departmental trust accounts, referred to as sub-accounts. The trust accounts are used to account for patient payments, grants, donations, patient and employee deposits and patient/insurance refunds. As of June 30, 2009, OVMC had \$578,600 in its trust accounts. We reviewed OVMC's controls over its trust accounts and noted the following:

- OVMC inappropriately deposited non-patient collections into their patient collections trust account (UH1-3301). The fund was established to hold patient payments for services until they can be credited to the correct patients' accounts. However, we noted that 50 (63%) of the 80 transactions reviewed, totaling \$596,500, were not for patient collections. The Facility used the patient collections trust account for non-patient collections, such as employee deposits for uniforms, key cards, pagers, salvage revenue and lost badge payments.
- OVMC could not locate documentation indicating the purpose and authority for two trust accounts. As a result, we could not determine whether the trust accounts were used appropriately.
- County Fiscal Manual (CFM) Section 2.3.0 requires departments to reconcile their trust accounts to the County's official accounting records monthly, or quarterly if the account balance is less than \$5,000. Departments must also maintain subsidiary ledgers for each account. OVMC did not maintain detailed subsidiary ledgers for two trust accounts, and for two TK7-7265 sub-accounts. In addition, OVMC had not properly reconciled any of their four trust accounts and five sub-accounts since the implementation of eCAPS in July 2005. As a result, at the time of our review, we noted an unreconciled difference of \$87,100 in OVMC's TK7-7265 account, which was 34% of the account's total balance. Because OVMC does not maintain detailed subsidiary ledgers for each sub-account, we could not determine the source of the discrepancy.

OVMC should ensure that funds are used as intended, and keep documentation of each trust account's purpose and authority. OVMC should also keep detailed ledgers for all trust accounts and sub-accounts, reconcile the accounts monthly/quarterly, as required, and ensure that unreconciled differences are promptly investigated and resolved. In addition, OVMC should review its trust accounts and sub-accounts annually, close accounts if the Facility cannot determine an account's purpose, or if an account is no longer needed, and appropriately dispose of any remaining balances (i.e., transfer to enterprise fund, return to donor, etc.).

### **Recommendations**

#### **OVMC management:**

- 1. Ensure that trust accounts are used as intended, and keep documentation of each trust account's purpose and authority.**
- 2. Keep detailed subsidiary ledgers for all trust accounts and sub-accounts.**

- 3. Reconcile trust accounts and sub-accounts monthly/quarterly, as required, and ensure that unreconciled differences are promptly investigated and resolved.**
- 4. Review trust accounts and sub-accounts annually, close accounts if the Facility cannot determine their purpose, or if a trust account is no longer needed, and appropriately dispose of any remaining balances.**

### **Patients' Personal Deposits**

If a patient has money with them when they are admitted to OVMC, the money should be deposited into OVMC's Patients' Personal Deposit (TK7-7265) sub-account for safekeeping. CFM Section 1.3.7.1 requires that funds received to be deposited intact and prohibits making disbursements from collections before they are deposited. OVMC has a \$3,000 revolving cash trust fund to be used to refund patients' personal deposits.

We noted that OVMC does not deposit patients' personal funds collected into the trust account. Since August 2002, OVMC's practice has been to keep patients' funds in the Facility's safes until the patients return for their belongings. Not immediately depositing patients' money increases the risk of misappropriation. As a result of our review, OVMC inventoried their safes and deposited \$28,100 in patients' money into the Patients' Personal Deposit sub-account. However, as discussed below, due to OVMC's limited records of patient deposits, we were unable to verify the total amount that should have been deposited into the Patients' Personal Deposit sub-account. OVMC should ensure that cashiers deposit patients' personal funds into the Patients' Personal Deposit sub-account and make refunds from the revolving cash trust fund.

### **Recommendation**

- 5. OVMC management ensure cashiers deposit patients' personal funds into the Patients' Personal Deposit sub-account, and make refunds from the revolving cash trust fund.**

### **Unclaimed Funds**

Government Code Sections 50050 through 50057 indicate that unclaimed funds, such as patients' personal deposits and employees' security deposits for borrowed items, should be transferred to the Treasurer and Tax Collector (TTC) for disposition.

Based on the limited records of the patients' funds held in safes (discussed above), we determined that at least \$8,300 of the \$28,100 was unclaimed and should be transferred to TTC. However, OVMC's patients' personal and employees' deposit records were not complete enough for us to determine all the unclaimed funds that should be transferred to TTC. OVMC management should use the available records to

determine the balance of the Patients' Personal Deposit and Employees' Deposit sub-accounts, and transfer all unclaimed funds to TTC. In addition, OVMC management should ensure that staff keep detailed transaction logs of the Patients' Personal and Employees' Deposit sub-accounts, including patient/employee identification numbers, deposit dates and transaction amounts. OVMC should also periodically review the accounts to identify and transfer all unclaimed funds.

### **Recommendations**

#### **OVMC management:**

- 6. Determine the balance of the Patients' Personal and Employees' Deposit sub-accounts and transfer all unclaimed funds to TTC.**
- 7. Ensure staff keep complete transaction logs for Patients' Personal and Employees' Deposit sub-accounts.**
- 8. Periodically review the Patients' Personal and Employees' Deposit sub-accounts to identify and transfer unclaimed funds to TTC.**

### **Accounts Payable**

At the end of each fiscal year, County departments establish accounts payable to pay for services and supplies that have been received in the current year, but will be paid for in the subsequent year. Because accounts payable reduce the County's available fund balance, departments need to accurately estimate the amount of accounts payable that should be established and ensure that they only use accounts payable for prior year expenditures. Accounts payable are automatically cancelled at the end of the fiscal year if not used.

OVMC needs to improve their estimates and use of accounts payable. At the end of FY 2006-07, OVMC established \$1.9 million in accounts payable. However, by the end of FY 2007-08, OVMC had only used \$556,000 (29%) of the total accounts payable they established. This could indicate that the accounts payable were established without proper support, and are not based on the services and supplies that were received before fiscal year end, as required.

We also tested payments charged against FY 2007-08 purchase orders, and noted that OVMC inappropriately charged \$139,000 for goods and services that were actually received in FY 2006-07 to FY 2007-08 purchase orders. OVMC should have established accounts payable for these items.

### **Recommendation**

- 9. OVMC management reinstruct fiscal staff on establishing and using accounts payable and monitor for compliance.**

### **Revolving Funds**

Revolving funds are used for change funds, petty cash purchases and to disburse cash aid funds to indigent patients for bus fare or other transportation needs. Revolving cash trust funds are used to make high volume refunds. OVMC has two revolving funds, totaling approximately \$5,800, and one revolving cash trust fund, totaling \$3,000. The revolving funds are divided into six cash aid funds, five cashier change funds, and a petty cash fund. The revolving cash trust fund is separated into two accounts. OVMC has two cashier offices that use the revolving funds and the revolving cash trust fund. Our review of OVMC's revolving funds and revolving cash trust fund noted the following:

- OVMC does not maintain its revolving funds on a fixed basis, as required by CFM Section 1.6.3. We noted that the Facility's cash aid fund balance was approximately \$1,500, or \$800 more than the assigned amount of \$700. In addition, cash aid fund transactions should be recorded on a log, and signed by the intended cash aid recipient. We noted 30 (15%) of the 201 transactions reviewed, were signed by someone other than the recipient. We also noted instances where funds were disbursed without a recipient signature.
- CFM Section 1.6.3 requires fund assignments to be maintained separately from other funds. OVMC has a \$2,800 Patients' Personal Deposit revolving cash trust account used to refund patients' personal deposits when they are discharged from the hospital. We noted that OVMC is using the revolving cash trust account as a change fund and to cash reimbursement warrants for the cash aid fund.
- Bank reconciliations must be performed monthly by a person with no deposit or check writing responsibilities. The reconciliations must be prepared in a timely manner, so that reconciling items can be resolved within the next bank statement period. We reviewed 68 bank reconciliations and noted that 44 (65%) were not dated. As a result, we could not determine if the reconciliations were completed timely. We also noted instances where authorized check signers approved the reconciliations.
- OVMC did not remove employees from the list of authorized check signers for their Petty Cash and Patients' Personal Deposit checking accounts when the employees left the Facility. We noted three authorized check signers no longer work for OVMC, including one signer that has not worked at the Facility for over nine years.

- CFM Section 4.6.1 states that petty cash funds can be used for emergencies, when prepayment is required, or where purchasing advantages can be achieved. We tested 24 petty cash transactions and noted that eight (33%), totaling \$2,800, did not comply with petty cash guidelines. For example, OVMC used petty cash funds to pay for employee parking reimbursements and non-emergent supplies that could have been paid through the normal procurement process.

### **Recommendations**

#### **OVMC management:**

- 10. Keep the cash aid fund at its assigned amount, keep a log of cash aid transactions and ensure that recipients sign for all disbursements.**
- 11. Ensure that revolving funds and revolving cash trust funds are maintained separately from other assigned funds and are used for their intended purpose.**
- 12. Reconcile bank accounts monthly as required and ensure adequate separation of duties exists over revolving fund and revolving cash trust fund checking accounts.**
- 13. Immediately remove employees who leave the Facility from the list of authorized check signers, and ensure the list is reviewed and updated annually.**
- 14. Ensure petty cash purchases comply with County guidelines.**

### **Cash Controls**

OVMC does not have adequate separation of duties over its cash handling and does not deposit collections daily, as required. Specifically, we noted the following:

- The same person who prepares the deposits has other cash receipting functions. In addition, deposits were not always reviewed and approved by a supervisor. As a result, there is no independent review ensuring that deposits are complete and cash/checks are accurately reported on the deposit slip, as required by CFM Section 1.3.7.1.
- CFM Section 1.3.7.1 requires that receipts of \$500 or more be deposited when received. We noted that nine (90%) of the ten deposits reviewed, totaling \$60,200, were deposited up to six days after the cash/checks were received. In addition, OVMC had \$24,200 in collections that had not been deposited timely, including one check that was over one year old.

- CFM Section 1.3.6 requires departments to assign two employees to open and process mail-in payments. We noted that only one person opens and processes mail-in payments.

### **Recommendations**

#### **OVMC management:**

- 15. Ensure that collections of \$500 or more are deposited daily.**
- 16. Ensure adequate separation of duties is maintained over collections, deposits and mail-in payments.**

### **County Internal Control Certification Program**

County Code Section 2.10.015 requires County departments to evaluate their fiscal controls annually using the County's Internal Control Certification Program (ICCP). The ICCP is intended to give departments the ability to assess their own internal controls and take corrective action to ensure compliance with County policies and standards.

When OVMC evaluated its fiscal controls over trust accounts, revolving funds and accounts payable using the ICCP, management certified controls were in effect, but we noted otherwise. Many of the internal control weaknesses discussed in this report could have been identified and corrected if the Facility had properly completed the ICCP, as required.

To ensure that OVMC correctly certifies that controls are in place, OVMC management should conduct ICCP reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.

### **Recommendation**

- 17. OVMC management conduct ICCP reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.**

### **Review of Report**

We discussed the results of our review with OVMC financial management. OVMC financial management agreed with our findings and recommendations, and will work to improve controls in these fiscal areas. OVMC's detailed response (attached) describes the corrective actions they have taken, or plan to take, to address the recommendations in our report. We thank OVMC management and staff for their cooperation and assistance during our review.

Ms. Carolyn Rhee

January 19, 2011

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We will be issuing a summary report of our reviews at all DHS facilities to the Board of Supervisors. Please call me if you have any questions, or your staff may contact Mike McWatters at (213) 253-0104.

JLS:MWM

Attachment

c: Wendy L. Watanabe, Auditor-Controller  
Mitchell H. Katz, M.D., Director, DHS  
Sharon Ryzak, Audit and Compliance Division, DHS  
Audit Committee





**Health Services**  
LOS ANGELES COUNTY

January 5, 2011

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Board of Supervisors

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TO: Wendy L. Watanabe  
Auditor-Controller

FROM: Mitchell H. Katz, M.D.  
Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S REVIEW OF  
TRUST ACCOUNTS, REVOLVING FUNDS, AND ACCOUNTS  
PAYABLE – VALLEYCARE OLIVE VIEW-UCLA MEDICAL  
CENTER**

Mitchell H. Katz, M.D.  
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Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's report of its review of Trust Accounts, Revolving Funds, and Accounts Payable at ValleyCare Olive View-UCLA Medical Center. We concur with and have taken or initiated corrective actions to address the recommendations contained in the report.

If you have any questions or require additional information, please let me know or you may contact Sharon Ryzak at (213) 240-7901.

MHK:sr

Attachment

*To improve health  
through leadership,  
service and education.*

c: Carolyn Rhee  
Gregory Polk  
Sharon Ryzak



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COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES  
RESPONSE TO AUDITOR-CONTROLLER TRUST ACCOUNTS, REVOLVING FUNDS,  
COMMITMENTS AND ACCOUNTS PAYABLE REVIEW  
VALLEYCARE OLIVE VIEW-UCLA MEDICAL CENTER

AUDITOR-CONTROLLER RECOMMENDATION #1

ValleyCare Olive View-UCLA Medical Center (OVMC) management ensure that trust accounts are used as intended, and keep documentation of each trust account's purpose and authority.

**DHS response:**

We concur. OVMC sent a July 2, 2009 letter to the Auditor-Controller Accounting Division to expand the use of the UH1 sweep account for various types of deposits, which was approved on September 1, 2010, by the Auditor-Controller Accounting Division. The Auditor-Controller Accounting Division provided documentation to support each trust account's purpose and authority which is now on file. OVMC will complete monthly Journal Vouchers to transfer funds in accordance with their purpose.

AUDITOR-CONTROLLER RECOMMENDATION #2

OVMC management keep detailed subsidiary ledgers for all trust accounts and sub-accounts.

**DHS response:**

We concur. Effective October 1, 2010, we established subsidiary ledgers for the TK7 patient personal deposits and employee deposits trust accounts. Patient deposit logs were established August 20, 2009, and employee deposit logs have been in effect since October 30, 2007.

AUDITOR-CONTROLLER RECOMMENDATION #3

OVMC management reconcile trust accounts/sub-accounts monthly/quarterly, as required, and ensure that unreconciled differences are promptly investigated and resolved.

**DHS response:**

We concur. Beginning March 31, 2011, Expenditure Management will reconcile TK7 patient personal deposits and employee deposits monthly and will investigate and resolve unreconciled differences. Monthly reconciliations for the other funds were previously completed in a different format; however, the Auditor-Controller's recommended format was implemented by June 30, 2010, and will be reviewed by management starting March 31, 2011.

AUDITOR-CONTROLLER RECOMMENDATION #4

OVMC management review trust accounts/sub-accounts annually, and close accounts if the Facility cannot determine the purpose or if a trust account is no longer needed and appropriately dispose of any remaining balances.

**DHS response**

We concur. The Auditor-Controller Accounting Division provided documentation of the purpose of each account and determined that the two accounts identified are Countywide trust funds that cannot be closed. The remaining balance for one account was determined to be due to a typographical error by a Countywide payroll transaction that was subsequently corrected in August 2010, and the remaining balance of 39 cents in the second account was transferred to the appropriate TK7 account.

AUDITOR-CONTROLLER RECOMMENDATION #5

OVMC management ensure cashiers deposit patient personal funds into the Patient Personal Deposit sub-account and make refunds from the revolving cash trust fund.

**DHS response:**

We concur. As of October 2007, subsequent to the period reviewed, all patient personal funds have been deposited into the Patient Personal Deposit TK7 account and reimbursement is made from the revolving cash trust fund or a warrant issued directly from the TK7 account. In September 2010, staff were trained on Trust Fund Procedures and OVMC Outpatient Financial Services Division Policy and Procedure No. 615, Trust Funds, was developed effective December 8, 2010.

AUDITOR-CONTROLLER RECOMMENDATION #6

OVMC management determine the balance of the Patient Personal and Employee Deposit sub-accounts and transfers all unclaimed funds to Treasurer Tax Collector (TTC).

**DHS response:**

We concur. In December 2009, the balance of the Patient Personal sub-account was determined and unclaimed funds were transferred and will be transferred annually to TTC. As of November 30, 2010, the balance was determined for the Employee Deposit sub-account. Balances for the Employee Deposits were not transferred to TTC since these funds may be held for up to five years before being reclaimed by the employee.

AUDITOR-CONTROLLER RECOMMENDATION #7

OVMC management ensure staff keep complete Patient Personal and Employee Deposit transaction logs.

**DHS Response:**

We concur. Transaction logs for Patient Personal Deposits have been in place since August 20, 2009 and for Employee Deposits since October 2007. Staff were trained on Trust Fund procedures in September 2010.

AUDITOR-CONTROLLER RECOMMENDATION #8

OVMC management periodically review the Patient Personal and Employee Deposit trust sub-accounts to identify and transfer additional unclaimed funds to TTC.

**DHS Response:**

We concur. A review and transfer of unclaimed funds was completed in December 2009. We will review the Patient Personal transaction logs and Employee Deposit trust sub-accounts subsidiary ledgers to identify and transfer unclaimed Patient Personal Deposit funds as appropriate to TTC on an annual basis.

AUDITOR-CONTROLLER RECOMMENDATION #9

OVMC management reinstruct fiscal staff on establishing and using accounts payable and monitor for compliance.

**DHS Response:**

We concur. On July 1, 2010, fiscal staff were reinstructed on County Fiscal Manual 4.2.0 Accounts Payable (expenditure accruals). As the result of a year-end Budget Adjustment for an Information Systems contract, \$1,099,000 was established as an accounts payable but should have been established as a commitment based on the timeline of when the services would be provided. It is OVMC's practice to establish accounts payable based on goods and services received by the end of the fiscal year. Staff reviews account payable transactions to ensure payments are for goods and services that were received by June 30<sup>th</sup> of the previous fiscal year.

AUDITOR-CONTROLLER RECOMMENDATION #10

OVMC management keep the cash aid fund at its assigned amount, keep a log of cash aid transactions and ensure that recipients sign for all disbursements.

**DHS Response:**

We concur. Beginning September 1, 2009, staff were trained during staff meetings to keep cash aid funds at assigned amounts and to make every attempt to ensure that cash aid transactions are signed by the recipient. Effective October 2, 2009, the Senior Cashier conducts monthly sub-fund audits to ensure funds are at the assigned amounts.

**AUDITOR-CONTROLLER RECOMMENDATION #11**

OVMC management ensure that revolving funds are maintained separately from other assigned funds and are used for their intended purpose.

**DHS Response:**

We concur. Effective October 2007, the Patient Personal Deposit revolving cash trust fund has been maintained separately and is no longer used as a change fund or to cash reimbursement warrants for the cash aid fund. In November 2007, staff were informed by the Senior Cashier of procedures for revolving funds and OVMC Outpatient Financial Services Division Policy and Procedure No. 615.1, Separation of Revolving Funds, was developed effective December 8, 2010, to ensure that funds are used for their intended purpose and are maintained separately.

**AUDITOR-CONTROLLER RECOMMENDATION #12**

OVMC management reconcile bank accounts monthly as required and ensure adequate separation of duties exist over revolving fund checking accounts.

**DHS Response:**

We concur. To ensure separation of duties, effective February 28, 2010, an Expenditure Management staff has been trained to reconcile the Patient Trust account and authorized check signers are no longer approving bank reconciliations. OVMC continues to reconcile the bank accounts monthly and, effective February 28, 2010, the reconciliations are being signed and dated monthly.

**AUDITOR-CONTROLLER RECOMMENDATION #13**

OVMC management immediately remove employees who leave the Facility from the list of authorized check signers and ensure the list is reviewed and updated annually.

**DHS Response:**

We concur. Effective September 2009, all three former OVMC employees were removed from the list of authorized signers. As of September 2009, a Fiscal Officer reviews the list of authorized check signers when employees leave the department to ensure that employees who leave are immediately removed from the list of authorized signers. This review will

also be conducted annually as part of the Internal Control Certification Program (ICCP) process.

AUDITOR-CONTROLLER RECOMMENDATION #14

OVMC management ensure petty cash purchases comply with County guidelines.

**DHS Response:**

We concur. In March 2009, Guidelines for the use of Petty Cash Fund, effective May 6, 2004, were redistributed to employees that process petty cash. Effective July 1, 2009, Expenditure Management staff reviews Request for Procurement of Supplies or Services forms (HS-2's) for compliance with County Fiscal Manual section 4.6.1. when processing petty cash.

AUDITOR-CONTROLLER RECOMMENDATION #15

OVMC management ensure that collections of \$500 or more are deposited daily.

**DHS Response:**

We concur. Every effort is made to obtain Sheriff (formerly County Police) escort to deposit funds at the end of each business day. As of March 2009, a County Police Escort Banking Log was developed to record daily attempts requesting County Police escort to the bank. Deposits are made an average of three times per week and are not made if an escort is not available. A request for daily armored car services will be submitted to Hospital Administration for approval.

AUDITOR-CONTROLLER RECOMMENDATION #16

OVMC management maintain adequate separation of duties over collections, deposits and mail-in payments.

**DHS Response:**

We concur. Separation of duties has been difficult due to staffing shortages and four Cashiers currently alternate duties. On June 3, 2009, a request to fill a vacancy was submitted for Administrative approval and additional budgeted position(s) will be requested to establish and maintain proper separation of duties. If we are unable to hire as planned, we will not be able to fully implement this recommendation. Effective November 2007, all mail-in payments are routed directly to Patients Accounts, where they are being opened in the presence of two employees. Effective August 2010, collections at the cashier's office are now deposited by an employee with no cash handling responsibility.

AUDITOR-CONTROLLER RECOMMENDATION #17

OVMC management conduct ICCP reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.

**DHS Response:**

We concur. The ICCP for FY 2009-10 was conducted according to ICCP procedures from February to April 2010. The responsible manager for the ICCP evaluation from each department reviews and verifies the ICCP prior to signature.